Notes to the Consolidated Financial Statements

For the year ended 31 December 2005
(All amounts in Renminbi Yuan thousands unless otherwise stated)

1. GENERAL INFORMATION AND GROUP REORGANISATION

(a) Jolimark Holdings Limited (the "Company") was incorporated in the Cayman Islands on 22 July 2004 as an exempted company with limited liability under the Companies Law (2003 Revision) of the Cayman Islands. The address of its registered offices is Clifton House, 75 Fort Street, PO Box 1350 GT, George Town, Grand Cayman, Cayman Islands.

(b) The Company and its subsidiaries (the "Group") is a provider of business equipment and tax control equipment based in the People's Republic of China (the "PRC"). The Group's core activities are (i) the design, manufacture and sale of business equipment and tax control equipment under its owned brand name "Jolimark"; (ii) the distribution in the PRC of Epson branded SDM printers and (iii) the manufacture in the PRC of business equipment, tax control equipment and other electronic products on EMS/ODM/OEM basis.

(c) On 10 May 2005, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital in each of Ying Mei Investment Limited ("Ying Mei Investment"), Kong Yue Investment Limited ("Kong Yue Investment") and Visionic Investment Limited ("Visionic Investment") through a share swap and become the holding company of the Group. Details of the Reorganisation are set out in the Prospectus of the Company dated 20 June 2005.

(d) The Company has its primary listing on the Stock Exchange on 29 June 2005.

(e) These consolidated financial statements are presented in thousands of units of Renminbi Yuan (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors of the Company on 31 March 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the years ended 31 December 2005 and 2004, rather than from the date on which the Reorganisation was completed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The Company has not been involved in any business transaction, other than one nil-paid share allotted and issued to Mr. Au Kwok Lun, since the date of its incorporation up to 31 December 2004. Accordingly, it has no material assets or liabilities as at 31 December 2004.

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with the HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

(a) *The adoption of new/revised HKFRS*

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation

Notes to the Consolidated Financial Statements
For the year ended 31 December 2005
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) *The adoption of new/revised HKFRS (continued)*

HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 16, 17, 18, 19, 20, 21, 23, 24, 27, 28, 33 and 37 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.

— HKASs 2, 7, 8, 10, 12, 16, 17, 18, 19, 20, 23, 27, 28, 33 and 37 had no material effect on the Group's accounting policies.

— HKAS 21 had no material effect on the Group's accounting policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

— HKAS 24 has affected the identification of related parties and some other related party disclosures.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

— Amortised on a straight line basis over a period of ten years; and

— Assessed for an indication of impairment at each balance sheet date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) *The adoption of new/revised HKFRS (continued)*

In accordance with the provisions of HKFRS 3 (note 2.5):

— The Group ceased amortisation of goodwill from 1 January 2005;

— Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

— From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

— HKAS 39 — does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

— HKFRS 3 — prospectively after 1 January 2005.

(i) The adoption of HKAS 39 resulted in:

	2005
Increase in available-for-sale financial assets	**1,750**
Decrease in investment securities	**(1,750)**

There was no impact on basic earnings per share from the adoption of HKAS 39.

There was no impact on opening retained earnings at 1 January 2004 from the adoption of HKAS 39 and HKFRS 3.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) *Standards, interpretations and amendments to published standards that are not yet effective*

When preparing these consolidated financial statements, the Group has not early adopted the following new standards, amendments and interpretations to existing standards which are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods. The directors consider these new standards, amendments and interpretations to existing standards are not relevant to the Group's operations.

— HKAS 19 (Amendment), Employee Benefits (effective from 1 January 2006).

— HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006).

— HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006).

— HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006).

— HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).

— HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).

— HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures (effective from 1 January 2007).

— HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006).

— HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006).

— HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment (effective from 1 December 2005).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see note 2.5).

2.3 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi Yuan ("RMB"), which is the functional currency of the Group's entities.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2005
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation (continued)

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) *Group companies*

The results and financial position of all other group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment (continued)

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Plant and machinery	10–20 years
Furniture and fixtures	5 years
Leasehold improvements	10–20 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.6).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.5 Intangible assets

(a) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired associated company at the date of acquisition. Goodwill on acquisitions of associates is included in "interests in associates".

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGU") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose (note 2.6).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005
(All amounts in Renminbi Yuan thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Intangible assets (continued)

(b) *Trademark*

Trademark is shown at historical cost. Trademark has a definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademark over its estimated useful live (20 years).

2.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries and associates as investment securities.

Investment securities were stated at cost less any provision for impairment losses.

The carrying amounts of individual investments were reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary had occurred, the carrying amount of such securities was reduced to its fair value. The impairment loss was recognised as an expense in the income statement. This impairment loss was written back to income statement when the circumstances and events that led to the write-downs or write-offs ceased to exist and there was persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

From 1 January 2005 onwards:

The Group classifies its financial assets as available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all available-for-sale financial assets. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains or losses from available-for-sale financial assets.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A significant or prolonged decline in the fair value of the available-for-sale financial assets below its cost is considered an indicator that the available-for-sale financial assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks.

2.11 Share capital and premium

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.14 Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Pension obligations*

The Group participates in a defined contribution scheme administrated by the relevant authority of the PRC.

Contributions to the schemes are calculated as a percentage of employees' salaries. The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Employee benefits (continued)

(iii) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.15 Provision

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) *Sales of goods*

Sales of goods are recognised when a group entity has delivered products to the customer; the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Revenue recognition (continued)

(b) *Sales of services*

Sales of services are recognised in the accounting period in which the services are rendered.

(c) *Interest income*

Interest income is recognised on a time-proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(d) *Incentive subsidy*

Incentive subsidy is recognised on an accruals basis in accordance with the substance of the relevant agreements.

2.17 Leases

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Notes to the Consolidated Financial Statements

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3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk.

(a) *Market risk*

(i) *Foreign exchange risk*

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("US$"), Japanese Yen, Euro and Hong Kong dollars ("HK$"). The Group's businesses are principally conducted in RMB, except for import of some of the direct materials and machinery used for production that are mainly conducted in US$, Japanese Yen, Euro and HK$.

(ii) *Price risk*

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets. The Group is not exposed to commodity price risk.

(b) *Credit risk*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by arranging banking facilities.

(d) *Cash flow and fair value interest rate risk*

The Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005
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3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Fair value estimation

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.5. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates, as stated in note 9.

If the revised estimated gross margin at 31 December 2006 had been 10% lower than management's estimates at 31 December 2005, the Group would need to reduce the carrying value of goodwill on acquisition of an associate by RMB3,817,000.

If the revised estimated pre-tax discount rate applied to the discounted cash flows had been 10% higher than management's estimates, the recoverable amounts of CGUs would still be above the carrying value of goodwill.

5. SEGMENT INFORMATION

No business segment information of the Group is presented as the Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the manufacturing and sales activities of business equipment, tax control equipment and other electronic products.

The directors of the Company also consider that the presentation of geographical segment information is not meaningful as less than 10% of the Group's turnover and results are attributable to the market outside the PRC.

Notes to the Consolidated Financial Statements

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6. PROPERTY, PLANT AND EQUIPMENT — GROUP

	Plant and Machinery	Furniture and fixtures	Leasehold improvements	Motor vehicles	Total
At 1 January 2004					
Cost	60,359	4,789	2,614	775	68,537
Accumulated depreciation	(16,645)	(1,073)	(520)	(124)	(18,362)
Net book amount	43,714	3,716	2,094	651	50,175
Year ended 31 December 2004					
Opening net book amount	43,714	3,716	2,094	651	50,175
Additions	10,093	2,158	1,208	2,086	15,545
Disposals	—	—	—	(107)	(107)
Depreciation	(7,889)	(1,065)	(393)	(349)	(9,696)
Closing net book amount	45,918	4,809	2,909	2,281	55,917
At 31 December 2004					
Cost	70,452	6,947	3,822	2,686	83,907
Accumulated depreciation	(24,534)	(2,138)	(913)	(405)	(27,990)
Net book amount	45,918	4,809	2,909	2,281	55,917
Year ended 31 December 2005					
Opening net book amount	45,918	4,809	2,909	2,281	55,917
Additions	10,050	1,840	298	1,255	13,443
Disposals	(43)	—	—	—	(43)
Depreciation	(8,814)	(1,435)	(584)	(648)	(11,481)
Closing net book amount	47,111	5,214	2,623	2,888	57,836
At 31 December 2005					
Cost	80,451	8,776	4,120	3,941	97,288
Accumulated depreciation	(33,340)	(3,562)	(1,497)	(1,053)	(39,452)
Net book amount	47,111	5,214	2,623	2,888	57,836

Notes to the Consolidated Financial Statements

For the year ended 31 December 2005
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6. PROPERTY, PLANT AND EQUIPMENT — GROUP (continued)

Depreciation expense was expensed in the following category in the income statement:

	2005	2004
Cost of goods sold	**8,323**	7,202
Selling and marketing costs	**630**	410
Administrative expenses	**2,360**	2,234
	11,313	9,846

7. INTANGIBLE ASSETS — GROUP

	Trademark
	note (a)
Year ended 31 December 2004	
Addition and closing net book amount	1,942
At 31 December 2004	
Cost	1,942
Accumulated amortisation	—
Net book amount	1,942
Year ended 31 December 2005	
Opening net book amount	1,942
Amortisation expense *(note (a))*	(100)
Closing net book amount	1,842
At 31 December 2005	
Cost	1,942
Accumulated amortisation	(100)
Net book amount	1,842

(a) Amount represents a usage right of trademark for a term of 20 years. Amortisation of RMB100,000 (2004: nil) is included in the administrative expenses in the income statement.

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8. INVESTMENTS IN SUBSIDIARIES — COMPANY

	2005
Unlisted shares	**211,751**

The following is a list of the principal subsidiaries at 31 December 2005:

Name	**Place of incorporation and kind of legal entity**	**Principal activities and place of operation**	**Particulars of issued share capital/ paid-in capital**	**Interest held**
Ying Mei Investment	BVI, limited liability company	Investment holdings/ PRC	US$50,000 Ordinary share	*100%
Kong Yue Investment	BVI, limited liability company	Investment holdings/ PRC	US$50,000 Ordinary share	*100%
Visionic Investment	BVI, limited liability company	Investment holdings/ PRC	US$50,000 Ordinary share	*100%
Kong Yue Jolimark Information Technology Ltd. ("Kongyue Jolimark")	PRC, limited liability company	Manufacturing and sales of business equipment and tax control equipment/ PRC	HK$93,815,000	100%
Jolimark Technology Limited	Hong Kong, limited liability company	Investment holdings/ PRC	HK$10,000	100%
Kong Yue Electronics & Information Industry (Xinhui) Ltd. ("Kongyue Information")	PRC, limited liability company	Manufacturing and sales of business equipment and tax control equipment/ PRC	US$12,450,000	95%

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8. INVESTMENTS IN SUBSIDIARIES — COMPANY (continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ paid-in capital	Interest held
Xin Yue Logistics Limited	Hong Kong, limited liability company	Logistics agent/ Hong Kong	HK$2	100%
Phenix Digital	PRC, limited liability company	Manufacturing and sales of digital display products/ PRC	RMB18,049,000	65%
Jolimark Information Technology (China) Limited	PRC, limited liability company	Manufacturing and sales of Jolimark branded products/ PRC	RMB7,500,000	100%
Shenzhen Jolimark Business Appliances Ltd.	PRC, limited liability company	Research and development/PRC	RMB3,000,000	100%
Jiangmen Kong Yue Jolimark Tax Control Services Ltd.	PRC, limited liability company	Marketing of tax control equipment/ PRC	RMB500,000	95%
Jiangmen Jolimark Information System Engineering Ltd.	PRC, limited liability company	Development of tax control software/ PRC	RMB1,000,000	95%
Shanghai Guangao Jolimark Business equipment Ltd.	PRC, limited liability company	Marketing of tax control equipment/ PRC	RMB1,000,000	60%
AUI Co., Ltd.	Japan, limited liability company	Raw material sourcing and business development in Japan/Japan	JPY10,000,000	100%

* The shares are directly held by the Company.

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9. INTERESTS IN ASSOCIATES — GROUP

	2005	2004
Beginning of the year	**11,947**	28
Disposal of an associate	**—**	(28)
Acquisition of associates (note (a))	**350**	13,320
Amortisation of goodwill	**—**	(1,373)
Share of losses of associates	**(2,418)**	—
End of the year	**9,879**	11,947

(a) On 10 November 2005, Kongyue Jolimark jointly with Feile Acoustics Co., Ltd. Shanghai and Shanghai Dunxun Electronic Technology Limited agreed to contribute additional capital of RMB1,000,000 to Shanghai Liang Biao Business Appliances Ltd. ("Shanghai Liang Biao"), included in which the amount has been contributed by Kongyue Jolimark was RMB350,000. As at 31 December 2005, Kongyue Jolimark totally contributed capital of RMB1,050,000 in Shanghai Liang Biao amounting to its 35% equity interest.

(b) Interests in associates at 31 December 2005 include goodwill of RMB7,467,000 (2004: RMB7,467,000) arising from investment in Beijing Stone Business Information Technology Ltd. ("Beijing Stone") of which Kongyue Information held its 20% equity interest.

Impairment test for goodwill

For the purpose of impairment testing, investment in Beijing Stone was identified as a CGU.

The recoverable amount of a CGU is determined based on value-in-use calculation. This calculation has used cash flow projection based on financial budget approved by management covering a five-year period.

Key assumptions used for value-in-use calculations	
— Gross margin	28%
— Discount rate	15%

These assumptions have been used for the analysis of the CGU.

Management determined budgeted gross margin based on past performance and its expectations for the market development. The discount rate used is pre-tax and reflects specific risks relating to the associate.

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9. INTERESTS IN ASSOCIATES — GROUP (continued)

(c) The Group's interest in its principal associates, all of which are unlisted, were as follows:

Name	Country of establishment	Assets	Liabilities	Revenues	Profit/ (loss)	% Interest held
2004						
Beijing Stone	PRC	18,900	—	—	—	20%
Shanghai Liang Biao	PRC	2,000	—	—	—	35%
		20,900	—	—	—	
2005						
Beijing Stone	PRC	11,637	662	6,129	(7,925)	20%
Shanghai Liang Biao	PRC	1,617	998	—	(2,381)	35%
		13,254	1,660	6,129	(10,306)	

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP

	2005
Unlisted securities	
— Equity securities of private issuers	**1,750**

There was no addition, disposal and impairment provision on available-for-sale financial assets in 2005.

11. INVESTMENT SECURITIES — GROUP

	2004
Equity securities:	
— Unlisted securities	1,750

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12. INVENTORIES — GROUP

	2005	2004
Raw materials	**110,154**	103,036
Work in progress	**5,797**	6,165
Merchandise	**22,181**	16,274
Finished goods	**32,246**	33,672
	170,378	159,147

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB825,541,000 (2004: RMB810,959,000).

During the year, the write-down of inventory amounted to RMB1,163,000 (2004: RMB1,488,000) which has been included in administrative expenses in the income statement.

13. TRADE AND OTHER RECEIVABLES

	Group		Company
	2005	2004	2005
Trade receivables			
— Third parties	**245,530**	159,353	**—**
— Related parties *(note 30)*	**—**	9,287	**—**
	245,530	168,640	**—**
Less: provision for impairment of receivables	**(3,426)**	(3,426)	**—**
Trade receivables — net	**242,104**	165,214	**—**
Prepayments			
— Third parties	**8,960**	15,792	**—**
— Related parties *(note 30)*	**5,929**	4,968	**—**
Amounts due from subsidiaries	**—**	—	**160,208**
Other receivables from third parties	**9,531**	3,982	**225**
	266,524	189,956	**160,433**

The carrying amounts of trade receivables approximate their fair value.

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13. TRADE AND OTHER RECEIVABLES (continued)

The Group's sales to corporate customers are entered into on credit terms ranging from 30 to 180 days. At 31 December 2005, the ageing analysis of the trade receivables, including amounts due from related parties of trading in nature, were as follows:

	2005	2004
0–30 days	**146,449**	90,117
31–90 days	**45,932**	49,120
91–180 days	**6,746**	22,522
181–365 days	**44,187**	6,380
Over 365 days	**2,216**	501
	245,530	168,640

There is no concentration of credit risk with respect to trade receivables; the customers of the Group are widely dispersed.

The Group has recognised a loss of RMB563,000 (2004: RMB3,110,000) for the impairment of its trade receivables during the year ended 31 December 2005. The loss has been included in administrative expenses in the income statement.

14. CASH AND CASH EQUIVALENTS

	Group		**Company**
	2005	2004	**2005**
Cash at bank and in hand	**95,832**	38,951	**542**
Short-term bank deposits	**17,009**	—	**17,009**
	112,841	38,951	**17,551**

The effective interest rate on short-term bank deposits was 3.62% per annum; these deposits have an average maturity of 17 days.

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15. SHARE CAPITAL AND PREMIUM

Movements were:

	Note	**Number of ordinary shares of HK$0.01 each**	**Nominal value of ordinary shares** HK$'000	**Equivalent nominal value of ordinary shares** RMB'000	**Share premium** RMB'000	**Total** RMB'000
Authorised						
Ordinary shares HK$0.01 each upon incorporation	*(a)*	10,000,000	100	106	—	106
Increase in authorised share capital	*(d)*	9,990,000,000	99,900	105,894	—	105,894
Ordinary shares of HK$0.01 each		10,000,000,000	100,000	106,000	—	106,000
Issued and fully paid						
Ordinary shares of HK$0.01 each allotted and issued nil paid	*(a)*	1	—	—	—	—
On acquisition of Ying Mei Investment, Kong Yue Investment and Visionic Investment						
— nil paid shares credit as fully paid	*(b)*	—	—	—	—	—
— share issued as consideration for acquisition of subsidiaries of the Group	*(b)*	2,999,999	30	32	—	32
Issue of shares for cash	*(c)*	89,000	1	1	12,401	12,402
Capitalisation issue	*(e)*	371,911,000	3,719	3,942	(3,942)	—
Issue of shares in connection with the listing	*(f)*	125,000,000	1,250	1,325	149,725	151,050
Placing and listing expenses					(22,989)	(22,989)
Ordinary shares of HK$0.01 each		500,000,000	5,000	5,300	135,195	140,495

15. SHARE CAPITAL AND PREMIUM (continued)

(a) As at the date of incorporation of the Company, its authorised share capital was HK$100,000 divided into 10,000,000 shares. On 22 July 2004, one nil-paid share was allotted and issued to Mr. Au Kwok Lun, and was transferred to Kytronics Holdings on 10 May 2005.

(b) On 10 May 2005, the Company entered into a sale and purchase agreement with Kytronics Holdings in relation to the acquisition of the entire issued share capital in each of Ying Mei Investment, Kong Yue Investment and Visionic Investment at considerations of RMB123,692,000, RMB88,059,000 and US$1.00 respectively which were satisfied by the allotment and issue of 2,999,999 shares to Kytronics Holdings credited as fully paid and crediting as fully paid up at par the then existing one nil-paid share on capitalisation of an amount of HK$0.01 standing to the credit of the share premium account of the Company.

(c) On 17 May 2005, 89,000 shares were issued and allotted to LC Fund II, an independent third party of the Group, for cash at premium of HK$131.45 per share.

(d) Pursuant to the written resolutions of the shareholders of the Company passed on 13 June 2005, the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000, by the creation of an additional 9,990,000,000 shares.

(e) On 13 June 2005, 371,911,000 ordinary shares of the Company were allotted and issued, credited as fully paid at par value of HK$0.01 each to the shareholders whose names appear on the register of members of the Company at the close of business on 19 June 2005 in proportion to their then existing shareholdings in the Company, by the capitalisation of HK$3,719,110 from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "listing") as described in note (f) below.

(f) On 29 June 2005, the Company issued 125,000,000 ordinary shares of HK$0.01 each at HK$1.14 per share in connection with the listing, and raised gross proceeds of approximately HK$142,500,000.

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16. OTHER RESERVES

(a) Group

	Merger reserve *(note i)*	Statutory reserve and enterprise expansion fund	Total
Balance at 1 January 2004	76,893	30,754	107,647
Capital injection by the then shareholders to the subsidiaries of the Group	60,011	—	60,011
Transfer from retained earnings	—	5,827	5,827
Balance at 31 December 2004	136,904	36,581	173,485
Balance at 1 January 2005, as per above	136,904	36,581	173,485
Transfer from retained earnings	—	6,647	6,647
Balance at 31 December 2005	136,904	43,228	180,132

(i) Merger reserve of the Group represents the difference between the share capital of subsidiaries acquired pursuant to the Reorganisation (note 1) over the nominal value of the share capital of the Company issued in exchange.

(b) Company

Other reserves of the Company represented the difference between the cost of investments in subsidiaries acquired pursuant to the Reorganisation over the nominal value of the share capital of the Company issued in exchange.

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17. TRADE AND OTHER PAYABLES

	Group		Company
	2005	2004	**2005**
Trade payables			
— Third parties	**77,093**	66,408	**—**
— Related parties *(note 30)*	**4,321**	38,443	**—**
	81,414	104,851	**—**
Amounts due to subsidiaries	**—**	—	**3,150**
Other payables to third parties	**22,758**	22,613	**—**
Staff welfare benefits payable	**3,405**	11,609	**—**
Advance from customers	**161**	142	**—**
Payable for acquisition of Phenix Digital	**—**	11,732	**—**
	107,738	150,947	**3,150**

At 31 December 2005, the ageing analysis of the trade payables, include amounts due to related parties of trading in nature, were as follows:

	2005	2004
0–30 days	**35,887**	68,455
31–90 days	**19,876**	35,186
91–180 days	**23,883**	895
181–365 days	**363**	232
Over 365 days	**1,405**	83
	81,414	104,851

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18. BORROWINGS — GROUP

	2005	2004
Current		
Bank borrowings		
— unsecured	**96,160**	100,000

The effective interest rates of short-term borrowings at the balance sheet date were 5.77% per annum (2004: 5.20% per annum).

The carrying amounts of bank borrowings included in current liabilities approximate their fair value.

The carrying amounts of the borrowings are denominated in the following currencies:

	2005	2004
United States dollars	**16,160**	—
Renminbi	**80,000**	100,000
	96,160	100,000

As at 31 December 2005, the Group had total banking facilities amounting to RMB80 million, all of which was for trade finance. These banking facilities were secured by a mortgage on the equipments of Kongyue Information amounting to RMB26.6 million, and a corporate guarantee given by Kongyue Jolimark. As at 31 December 2005, the Group has not utilised the said banking facilities.

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19. DEFERRED INCOME TAX — GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. As at 31 December 2005, the Group had no deferred income tax liabilities. The deferred income tax assets are as follows:

	2005	2004
Deferred tax assets:		
— Deferred tax assets to be recovered after more than 12 months	**1,815**	1,815
— Deferred tax assets to be recovered within 12 months	**—**	36
	1,815	1,851

The movement on the deferred income tax assets account is as follows:

	2005	2004
Beginning of the year	**1,851**	1,155
(Charged)/credited in the income statement	**(36)**	696
End of the year	**1,815**	1,851

Deferred tax assets:

	Provision for doubtful debts	**Write-down of inventories**	**Others**	**Total**
At 1 January 2004	191	545	419	1,155
Credited in the income statement *(note 25)*	220	179	297	696
At 31 December 2004	411	724	716	1,851
Credited/(charged) in the income statement *(note 25)*	—	140	(176)	(36)
At 31 December 2005	411	864	540	1,815

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20. OTHER LOSSES — NET

	2005	2004
Net foreign exchange losses	**1,843**	—

21. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	2005	2004
Depreciation for property, plant and equipments and amortisation of intangible assets *(notes 6 and 7)*	**11,413**	9,846
Changes in inventories of finished goods and work in progress	**(4,113)**	24,480
Raw materials and consumables used	**505,549**	544,448
Cost of goods sold in distribution business	**307,491**	225,102
Employee benefit expenses *(notes 22)*	**29,652**	21,796
Operating leases		
— Building	**5,091**	3,000
— Hire of machinery	**—**	348
Research and development costs	**4,081**	3,615
Auditors' remuneration	**1,385**	33

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22. EMPLOYEE BENEFIT EXPENSES

	2005	2004
Wages and salaries	**24,051**	18,283
Social security costs	**4,479**	2,783
Pension costs — defined contribution plans	**1,122**	730
	29,652	21,796

(a) Directors' and senior management's emoluments

The remuneration of every director of the Company for the year ended 31 December 2005 is set out below:

	Fees	Salary	Bonus	Inducement fees	Other benefits	Contribution to pension scheme	Compensation for loss of office	Total
Mr. Au Pak Yin	125	297	—	—	—	—	—	422
Mr. Au Kwok Lun	125	521	—	—	—	—	—	646
Ms. Ou Guo Liang	125	279	—	—	—	—	—	404
Mr. Ng Shu Kai	125	111	—	—	—	—	—	236
Mr. Lai Ming, Joseph*	125	—	—	—	—	—	—	125
Mr. Meng Yan*	62	—	—	—	—	—	—	62
Mr. Xu Guangmao*	62	—	—	—	—	—	—	62
	749	1,208	—	—	—	—	—	1,957

The remuneration of every director of the Company for the year ended 31 December 2004 is set out below:

	Fees	Salary	Bonus	Inducement fees	Other benefits	Contribution to pension scheme	Compensation for loss of office	Total
Mr. Au Pak Yin	—	—	—	—	—	—	—	—
Mr. Au Kwok Lun	—	102	—	—	—	—	—	102
Ms. Ou Guo Liang	—	121	—	—	—	—	—	121
	—	223	—	—	—	—	—	223

* Mr. Lai Ming, Joseph, Mr. Meng Yan and Mr. Xu Guangmao are independent non-executive directors of the Company.

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22. EMPLOYEE BENEFIT EXPENSES (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 3 (2004: 1) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2 (2004: 4) individuals during the year are as follows:

	2005	2004
Salaries and other benefits	**1,574**	376
Retirement scheme contributions	**—**	9
Compensation for loss of office	**—**	—
	1,574	385

The emoluments fell within the following bands:

	2005	2004
Nil to RMB1,000,000	**2**	4

23. OTHER INCOME

	2005	2004
Interest income	**1,063**	130
Incentive subsidy *(note (a))*	**3,739**	3,217
Tax refund on reinvestment *(note (b))*	**7,928**	—
Repair and maintenance service income	**2,060**	1,896
	14,790	5,243

(a) As an incentive to attract tenants, Kong Yue Industrial Park (Xinhui) Limited ("Industrial Park"), a related party of the Group, signed an agreement with Kongyue Information and Kongyue Jolimark on 16 April 2002 that Industrial Park agreed to subsidise Kongyue Information and Kongyue Jolimark by incentive subsidies received from local government in Xinhui City based on a percentage of tax payable by Kongyue Information and Kongyue Jolimark for subsidising their initial setting up and removal costs for their establishment at Kong Yue Industrial Park. The agreement can be terminated by Industrial Park when it serves notice to its tenants.

(b) In 2005, Kongyue Information and Kongyue Jolimark issued shares from capitalisation of the dividends payable to their respective shareholders totalling RMB59,435,000. Pursuant to relevant PRC income tax regulation, Kong Yue Investment and Ying Mei Investment, the respective shareholders of Kongyue Information and Kongyue Jolimark, were entitled to a full refund of the income tax amounting to approximately RMB7,928,000 previously levied on Kongyue Information and Kongyue Jolimark in relation to corresponding dividends. The tax refund has been received by the Group in 2005.

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24. FINANCE COSTS

	2005	2004
Interest expenses on bank borrowings	**5,628**	3,979

25. INCOME TAX EXPENSES

	2005	2004
Current income tax		
— Hong Kong profits tax	**898**	—
— PRC enterprise income tax	**10,579**	13,286
Deferred income tax	**36**	(696)
	11,513	12,590

The income tax on the Group's profit before taxation differs from the theoretical amount that would arise using the enacted tax rate of the home country of the Group companies as follows:

	2005	2004
Profit before tax	**91,640**	99,891
Tax calculated at tax rates applicable to profits in the respective entities of the Group	**24,986**	26,971
Income tax exemption and reduction *(note (a))*	**(14,317)**	(14,984)
Expenses not deductible for tax purposes	**844**	603
Tax expenses	**11,513**	12,590

Hong Kong profit tax

Hong Kong profits tax has been provided at the rate of 17.5% for the year ended 31 December 2005.

No Hong Kong profits tax has been provided for as there was no assessable profit derived in Hong Kong for the year ended 31 December 2004.

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25. INCOME TAX EXPENSES (continued)

PRC enterprise income tax

PRC enterprise income tax of the Group's entities established in the mainland China, mainly Kongyue Jolimark and Kongyue Information, is provided on the basis of the profit for statutory financial reporting purposes, adjusted for income and expenses items, which are not assessable or deductible for income tax purpose. As Kongyue Jolimark and Kongyue Information are established in the Coastal Open Economic Zones of the PRC, their applicable enterprise income tax rate is 27%, which comprised 24% attributable to national tax and 3% attributable to local municipal income tax.

(a) In accordance with the relevant applicable tax regulations, Kongyue Jolimark and Kongyue Information are entitled to full exemption from national enterprise income tax for the first two years and 50% reduction in national enterprise income tax for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years. Local municipal income tax is exempted in the tax holiday period. Kongyue Jolimark and Kongyue Information started to derive taxable income in the year ended 31 December 2001 and 31 December 2000, respectively. Hence, both Kongyue Jolimark and Kongyue Information have triggered their first profitable year for the enterprise income tax exemption and reduction purposes.

    Moreover, if foreign enterprise is recognised as "Advance Technology Enterprise", it will be entitled to a further extension of 50% tax reduction in national enterprise income tax after the end of tax holiday. Both Kongyue Jolimark and Kongyue Information are currently recognised as "Advance Technology Enterprise" which is subject to annual renewal with Guangdong Province Foreign Trade Economic Cooperation Bureau.

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26. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Profit attributable to shareholders of the Company	**78,603**	86,225
Weighted average number of ordinary shares in issue *(thousands)*	**434,673**	364,196
Basic earnings per share *(RMB per share)*	**0.181**	0.237

No diluted earnings per share is presented as there were no potential dilutive shares in issue during the years ended 31 December 2005 and 2004.

27. DIVIDENDS

	2005	2004
Dividends to the then shareholders *(note (a))*	**—**	92,275
Interim dividend paid of HK$0.032 per ordinary share *(note (b))*	**16,640**	—
Proposed final dividend of HK$0.0285 per ordinary share *(note (c))*	**14,820**	—
	31,460	92,275

(a) Dividends of RMB92,275,000 were declared by the Company's subsidiaries to their then shareholders during the year ended 31 December 2004.

(b) At a meeting held on 15 September 2005, the directors of the Company proposed an interim dividend of HK$0.032 per share for the year ended 31 December 2005.

(c) At a meeting held on 31 March 2006, the directors of the Company proposed a final dividend of HK$0.0285 per share for the year ended 31 December 2005. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 December 2006.

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28. CASH GENERATED FROM OPERATIONS

	2005	2004
Profit for the year	**80,127**	87,301
Adjustments for:		
— Income tax expenses *(note 25)*	**11,513**	12,590
— Depreciation *(note 6)*	**11,313**	9,846
— Amortisation *(note 7)*	**100**	—
— Loss on sale of property, plant and equipment	**43**	—
— Interest income *(note 23)*	**(1,063)**	(130)
— Finance cost *(note 24)*	**5,628**	3,979
— Foreign exchange losses on cash and bank	**2,650**	—
— Share of loss from associates *(note 9)*	**2,418**	1,373
	112,729	114,959
Changes in working capital:		
— Inventories	**(11,063)**	64,721
— Trade and other receivables	**(76,568)**	(67,501)
— Trade and other payables	**(31,477)**	(13,229)
Cash (used in)/generated from operations	**(6,379)**	98,950

29. COMMITMENTS — GROUP

Operating lease commitments

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	2005	2004
No later than 1 year	**5,091**	3,385
Later than 1 year and not later than 5 years	**17,977**	13,216
Later than 5 years	**1,911**	3,233
	24,979	19,834

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29. COMMITMENTS — GROUP (continued)

Financial commitments

	2005	2004
Contributions to paid-in-capital of Jolimark Information Technology (China) Limited	**42,500**	57,800

In accordance with the approved document issued by Beijing Haidian District Bureau of Commerce on 9 December 2004, the Group should contribute registered capital of RMB42,500,000 to Jolimark Information Technology (China) Limited on or before 7 September 2006.

30. RELATED-PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	**Relationship**
Au Family	Beneficial owner of the Company which include Mr. Au Pak Yin, Mr. Au Kwok Lun, Mr. Ou Guo Liang and Ms. Ou Ri Ai
Close Au Family Members	Close family members of Mr. Au Pak Yin, Mr. Au Kwok Lun, Mr. Ou Guo Liang and Ms. Ou Ri Ai
Guangdong Kong Yue Precision Manufacturing Ltd. ("Guangdong Precision")	Company directly owned by Dinomax
Jiangmen Kong Yue Information Products Import Export Ltd. ("KY Import/Export")	Company directly controlled by Jiangmen Kongyue Information Technology Ltd. (Company beneficially owned by Mr. Ou Guo Liang and Close Au Family Members) and Close Au Family Members
Dinomax Pte Ltd. ("Dinomax")	Company beneficially owned by Au Family
New Success Logistics Limited ("New Success")	Company beneficially owned by Mr. Ou Guo Liang and Close Au Family Members
Industrial Park	Company beneficially owned by Mr. Au Pak Yin and Close Au Family Members
Beijing Kong Yue Jolimark Information Technology Ltd. ("Beijing Kongyue")	Company beneficially owned by Close Au Family Members and Mr. Ou Guo Liang
Shanghai Kong Yue Electronics Ltd. ("Shanghai KY Electronics")	Company indirectly controlled by KY Import/Export

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For the year ended 31 December 2005
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30. RELATED-PARTY TRANSACTIONS (continued)

(a) Name and relationship with related parties (continued)

Name	Relationship
Chengdu City Wuhou District Kong Yue Information Industry Limited ("Chengdu Kongyue")	Company directly controlled by Close Au Family Members and Mr. Ou Guo Liang
Guangzhou Kong Yue Information Technology Ltd. ("Guangzhou Kongyue")	Company directly controlled by KY Import/Export and Mr. Ou Guo Liang
Shenyang Kong Yue Jolimark Information Technology Ltd. ("Shenyang Kongyue")	Company directly controlled by Close Au Family Members and Mr. Ou Guo Liang
Xi'an Kong Yue Information Technology Ltd. ("Xi'an Kongyue")	Company directly controlled by KY Import/Export and Mr. Ou Guo Liang
Wuhan Kong Yue Information Technology Ltd. ("Wuhan Kongyue")	Company directly controlled by KY Import/Export and Mr. Ou Guo Liang
Xinhui Kong Yue Printing Equipment Manufacturing Ltd. ("Kongyue Printing")	Company directly controlled by Kong Yue Technology Limited ("Kongyue Technology", Company beneficially owned by Mr. Au Pak Yin and Close Au Family Members)
Guangdong Kong Yue Zhongding Rubber Component Ltd. ("Guangdong Zhongding")	Company owned as to 25% by Kongyue Technology and 75% by an independent third party
Jiangmen Kong Yue Yida Precision Ltd. ("Jiangmen Yida")	Company under significant influence by Dinomax

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30. RELATED-PARTY TRANSACTIONS (continued)

(b) The following significant transactions were carried out with related parties:

(i) *Sales of goods (note (1))*

	2005	2004
— New Success	**—**	93,552
— KY Import/Export	**3,357**	41,160
— Beijing Kongyue	**—**	4,247
— Shanghai KY Electronics	**—**	20,362
— Chengdu Kongyue	**—**	3,737
— Guangzhou Kongyue	**—**	10,460
— Xi'an Kongyue	**—**	2,219
— Wuhan Kongyue	**—**	1,438
— Shenyang Kongyue	**—**	5,835
— Guangdong Precision	**—**	21
	3,357	183,031

(ii) *Purchase of goods (note (1))*

	2005	2004
— Guangdong Precision	**7,713**	6,655
— Guangdong Zhongding	**7,365**	9,594
— New Success	**—**	334,389
— Jiangmen Yida	**4,145**	5,242
— Shanghai KY Electronics	**—**	504
— Beijing Kongyue	**—**	297
— Xi'an Kongyue	**—**	63
— Shanyang Kongyue	**—**	270
— Guangzhou Kongyue	**—**	113
— Wuhan Kongyue	**—**	319
— Chengdu Kongyue	**—**	321
	19,223	357,767

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30. RELATED-PARTY TRANSACTIONS (continued)

(b) The following significant transactions were carried out with related parties: (continued)

(iii) *Purchase of plant and machinery (note (1))*

	2005	2004
— Jiangmen Yida	**941**	—
— Dinomax	**—**	5,648
— Kongyue Printing	**—**	3,185
— Industrial Park	**—**	372
	941	9,205

(iv) *Key management compensation*

	2005	2004
Salary and other short-tem employee benefits	**3,709**	473

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For the year ended 31 December 2005
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30. RELATED-PARTY TRANSACTIONS (continued)

(b) The following significant transactions were carried out with related parties: (continued)

(v) *Other transactions*

	2005	2004
Rental expenses due to		
— Industrial Park *(note (2))*	**3,495**	3,000
— Kongyue Printing	**—**	348
— Mr. Ou Guo Liang *(note (3))*	**1,651**	—
	5,146	3,348
Handling fee due to		
— KY Import/Export *(note (4))*	**1,191**	1,745
Incentives granted by		
— Industrial Park	**3,739**	3,217
Management fee charged by		
— Beijing Kongyue	**—**	62
— Shanghai KY Electronics	**—**	171
— Guangzhou Kongyue	**—**	146
— Wuhan Kongyue	**—**	27
— Xi'an Kongyue	**—**	25
— Chengdu Kongyue	**—**	32
— Shenyang Kongyue	**—**	59
	—	522

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30. RELATED-PARTY TRANSACTIONS (continued)

(b) The following significant transactions were carried out with related parties: (continued)

(vi) *Year-end balances arising from sales/purchases of goods/services*

	2005	2004
Receivables from related parties *(note 13)*		
— KY Import/Export	**3,340**	13,157
— Industrial Park	**2,589**	786
— Jiangmen Yida	**—**	312
	5,929	14,255
Payable to related parties *(note 17)*		
— New Success	**—**	36,547
— Guangdong Zhongding	**2,521**	939
— Jiangmen Yida	**1,800**	957
	4,321	38,443

Notes:

(1) The above sales and purchase transactions were negotiated with related parties in a normal cause of business with a margin on the same basis with non-related parties.

(2) Rental expenses due to Industrial Park were related to lease of land and buildings which were determined with reference to the prevailing market price.

(3) Rental expenses due to Mr. Ou Guo Liang were related to lease of an office building which were determined with reference to the prevailing market price and in accordance with the terms of underlying agreement.

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For the year ended 31 December 2005
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30. RELATED-PARTY TRANSACTIONS (continued)

(b) The following significant transactions were carried out with related parties: (continued)

(vi) *Year-end balances arising from sales/purchases of goods/services (continued)*

Notes: (continued)

(4) Handling fee due to KY Import/Export represents service charge for handling customs documents for the Group during import process, which is based on approximately 1% of the aggregate value of goods handled by KY Import/Export.

(5) All balances with related parties were unsecured, interest free and repayable on demand.

31. ULTIMATE HOLDING COMPANY

The directors of the Company regard Kytronics Holdings Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company of the Group.